

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 7168**

**BILL NUMBER:** HB 1401

**NOTE PREPARED:** Feb 18, 2004

**BILL AMENDED:** Feb 17, 2004

**SUBJECT:** Public Officers Compensation Commission.

**FIRST AUTHOR:** Rep. Kuzman

**FIRST SPONSOR:** Sen. Harrison

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill establishes the Public Officers Compensation Advisory Commission to make recommendations to the General Assembly regarding the salaries to be paid to public officers. The bill provides that recommended increases in salaries may not exceed the change in the Indiana nonfarm income.

It provides that for purposes of computing a retirement benefit for a person who is a member of the Indiana state teachers' retirement fund and who takes an unpaid leave of absence to serve in an elected position: (1) "annual compensation" includes the total amount that was not paid to the member but would have been paid to the member during the year under the member's employment contracts if the member had not taken any unpaid leave of absence to serve in an elected position; and (2) the "average of the annual compensation" means the annual compensation for the one year of service in which the member's annual compensation was highest.

The bill also increases the governor's salary from \$95,000 to \$102,300 beginning in 2005.

**Effective Date:** (Amended) Upon passage; June 1, 2004; July 1, 2004.

**Explanation of State Expenditures:** (Revised) *Public Officers Compensation Advisory Commission:* This bill creates a nine-member Public Officers Compensation Advisory Commission to make recommendations on the salaries of elected statewide public officials and judges. Members of the Commission are appointed by the Speaker of the House, the President of the Senate, the Governor, the Chief Justice of the Supreme Court, and the Chief Justice of the Court of Appeals. Members may neither be public officers nor public employees. The Chairman of the Commission is appointed by the Chair of the Legislative Council.

The Commission would be required to meet at least once no later than July 1 of each even-numbered year. (At the call of the chair, the Commission may also meet more frequently.) Members of the Commission would receive a per diem and be covered for travel expenses. The Legislative Services Agency (LSA) would provide administrative support to the Commission. At the request of LSA, the State Personnel Department or the Indiana Judicial Center shall provide other support to the Commission. The Commission may also contract with consultants.

The bill appropriates to the Legislative Services Agency the funds necessary for the Commission's operation.

The Commission would meet to determine the growth in Indiana nonfarm income from the previous year to January 1 of the current year and consider information and recommendations related to public officers' salaries. Before September 1 of each even-numbered year, the Commission is required to make recommendations to the Legislative Council and the State Budget Committee on salary adjustments for public officers. The Commission may not recommend salary increases greater than the growth rate in Indiana nonfarm personal income.

Salary recommendations made by the Commission do not take effect unless enacted by the General Assembly.

*Teachers' Retirement Fund (TRF):* The bill also provides that for purposes of determining a TRF member's pension benefits, the member's "annual compensation" includes the additional amount that would have been paid to the member under the member's employment contract if the member had not taken unpaid leave of absence during the year to serve in an elected position. This section does not affect PERF.

The salary used in the computation would be the member's base contractual salary as a teacher, rather than the partial amount based on actual teaching service for the year. The specific impact will depend upon the number of TRF members who take unpaid leaves of absence to serve in an appointed or elected position of public service for a period of time toward the end of their teaching career. Assuming the number of members in this category is small relative to the entire TRF active member population, the overall effect on TRF is likely to be small. However, the impact for affected members could be significant. For example, if the final average salary increases to \$40,000 from \$30,000, the annual TRF benefit for a 30-year teacher would increase from \$9,900 to \$13,200. The liability associated with the increased benefit for the 30-year teacher who would retire at age 60, for example, would be over \$30,000. The fund affected is the state General Fund for the Closed Plan.

*Governor's Salary:* Beginning January 9, 2005, this bill increases the Governor's annual salary from \$95,000 to \$102,300. The salary increase, and the associated increase in fringe benefit costs, would increase state General Fund expenditures by approximately \$4,138 in FY 2005 and \$8,607 in subsequent years. The annual impact of this provision beginning in FY 2006, the first full fiscal year that the increase in effect, is shown in the table below.

	Current	Proposed	Difference
Governor's Annual Salary	\$95,000	\$102,300	\$7,300
Total Fringe Benefits	\$17,015	\$18,322	<u>\$1,307</u>
<b>Total Additional Cost</b>			<b>\$8,607</b>

**Explanation of State Revenues:** *Secondary Impact:* Additional income from salary increases would be

subject to the state's 3.4% income tax. To the extent that any additional income is spent on taxable items, Sales Tax revenue would also increase.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Public Officers; Legislators; Justices of the Supreme Court; Judges of the Court of Appeals; Legislative Services Agency; Teachers' Retirement Fund; State Personnel Department; State Budget Agency; Indiana Judicial Center.

**Local Agencies Affected:** Trial Court Judges; Prosecuting Attorneys; local school corporations with members in TRF; court clerks.

**Information Sources:** Bureau of Economic Analysis; Division of State Court Administration.

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